

Message Text

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ACTION EB-07

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E.O. 11652:N/A
TAGS: ETRD, CE
SUBJECT: PROSPECTS FOR US WHEAT SALES TO SRI LANKA

1. SUMMARY: USDA AND WESTERN WHEAT ASSOCIATES OFFICIALS MET DECEMBER 8-9 WITH GSL OFFICIALS TO DISCUSS US WHEAT SALES TO SRI LANKA. STATE FLOUR MILLING CORPORATION TO ORDER 20,000 METRIC TONS HARD RED WINTER ORDINARY FOR TRIAL RUN. IF RUN SUCCESSFUL CORPORATION PREPARED PURCHASE TOTAL YEARLY SUPPLY FROM US (PRESENTLY ABOUT 138,000 MT OF GRAIN, EXPECTED TO RISE TO ABOUT 330,000 MT BY END OF 1967 UNDER PLANNED MILL EXPANSION). FOOD COMMISSIONER ALSO INTERESTED IN MEETING AT LEAST PART OF HIS 450,000 MT ANNUAL FLOUR IMPORT REQUIREMENT THROUGH US WHEAT MILLED IN SINGAPORE. HOWEVER, EXTERNAL RESOURCES DIVISION, WHICH CONTROLS NECESSARY FOREIGN EXCHANGE ALLOCATIONS, PRESSING FOR AT LEAST TWO YEAR CCC CREDIT. END SUMMARY.

2. ON DECEMBER 8-9, JAMES HUTCHINSON AND JAMES WARD OF USDA, AND DON WISDOM, RICHARD BAUM, AND ALAN HUNT OF WESTERN WHEAT ASSOCIATES (WWA) VISITED COLOMBO TO PROMOTE SALE OF US WHEAT.

3. USDA/WWA DELEGATION AND EMBOFF CALLED ON V.P.
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SILVA, CHAIRMAN OF STATE FLOUR MILLING CORP., ON DEC. 9. SILVA GAVE RESULTS OF ANALYSIS OF 32 POUND SAMPLE OF HARD RED WINTER WHEAT PROVIDED EARLIER BY WWA. AFTER RAISING SEVERAL QUESTIONS WHICH WERE ANSWERED BY DELEGATION, SILVA SAID HE WAS VERY PLEASED WITH US WHEAT AND PLANNED TO ORDER A SHIPMENT OF 20,000 MT FOR

TRIAL RUN THROUGH MILL (20,000 MT WILL SUPPLY ABOUT SEVEN WEEKS MILL RUN). SILVA PLANS TO ISSUE TENDER AT END OF MARCH FOR CASH PURCHASE OF 20,000 MT US HARD RED WINTER ORDINARY FOR DELIVERY MAY 10-15, 1977. IF TRIAL RUN SUCCESSFUL, THIS WILL ALLOW SUFFICIENT TIME TO ORDER ADDITIONAL US WHEAT SUPPLIES FOR DELIVERY TO COINCIDE WITH END OF AUSTRALIAN SUPPLY IN OCTOBER, 1977. WWA OFFERED TO PROVIDE MILLING CONSULTANT TO SHOW SRI LANKANS BEST WAY TO MILL US WHEAT. SILVA SAID HE WAS ONLY MILDLY INTERESTED IN CCC CREDIT. STATE FLOUR MILLING CORP. SELF-SUPPORTING IN TERMS OF RUPEES AND QUESTION OF DOLLAR CREDITS OF GREATER CONCERN TO EXTERNAL RESOURCES DIVISION.

4. SRI LANKA MILL HAS CAPACITY OF 500 MT WHEAT GRAIN PER 3-SHIFT DAY. OPERATING AN AVERAGE OF 275 DAYS PER YEAR, MILL USES ABOUT 138,000 MT OF GRAIN TO PRODUCE APPROXIMATELY 100,000 MT OF FLOUR ANNUALLY. MILL CAPACITY TO BE EXPANDED TO 1200 MT OF GRAIN PER DAY BY END OF 1978, WHICH WOULD INCREASE MILL'S ANNUAL REQUIREMENT TO ABOUT 330,000 MT OF GRAIN.

5. ON DECEMBER 9, DELEGATION AND EMBOFF MET FIRST WITH FOOD COMMISSIONER M.D. SENANAYAKE AND THEN WITH EXTERNAL RESOURCES DIRECTOR S. VELAYUTHAM TO DISCUSS POSSIBILITY OF GSO PURCHASE OF US WHEAT FOR MILLING ENROUTE IN SINGAPORE. THIS WAS IDEA HUNT HAD RAISED WITH THEM DURING PREVIOUS VISIT OCTOBER 26-28; SINGAPORE MILL (PRIMA) IS PREPARED TO UNLOAD WHEAT, MILL AT 75 PERCENT EXTRACTION, BAG FLOUR AND RELOAD IN UNCLASSIFIED

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RETURN FOR BRAN EXTRACTED. PRIMA HAS SUFFICIENT EXCESS CAPACITY TO PROVIDE OVER 100,000 MT OF FLOUR PER YEAR AND MAY BE ABLE TO ARRANGE FOR ADDITIONAL PRODUCTION WITH OTHER SINGAPORE MILLS. FOOD COMMISSIONER PRESENTLY IMPORTING ABOUT 450,000 MT OF FLOUR PER YEAR (INCLUDING 200,000 MT UNDER PL 480 AND 75,000 MT IN GIFTS) VALUED AT ALMOST \$100 MILLION LANDED COST.

6. FOOD COMMISSIONER SAID HE WAS VERY MUCH IN FAVOR OF US/SINGAPORE ARRANGEMENT AS THIS WOULD SAVE ABOUT \$10 PER MT IN FOREIGN EXCHANGE AS COMPARED TO FLOUR IMPORTED FROM EC OR AUSTRALIA, AND HE VERY SATISFIED WITH US FLOUR PROVIDED UNDER PL 480. HE SAID WHEN PL 480 FLOUR DISTRIBUTED IT IMMEDIATELY BOUGHT UP AND HOARDED AS BAKERS KNOW THEY CAN PRODUCE MORE LOAVES THAN WITH SAME AMOUNT OF EC OR AUSTRALIAN FLOUR. IN ADDITION, FLOUR SHIPMENTS FROM SINGAPORE WOULD ALLOW USE OF SMALLER SHIPS WHICH CAN UNLOAD IN PORTS OTHER THAN COLOMBO AND

TRINCOMALEE (E.G. GALLE) THEREBY SAVING AN AVERAGE OF RS. 50 PER MT IN INTERNAL DISTRIBUTION COSTS. HE INDICATED, HOWEVER, THAT PROPOSAL WAS STALLED AT EXTERNAL RESOURCES.

7. AS USUAL, VELAYUTHAM WAS INTERESTED IN CREDIT TERMS FIRST, PRICE SECOND, AND QUALITY LAST. HE SAID FLOUR PURCHASES FROM AUSTRALIA HAD DROPPED TO ALMOST NOTHING BECAUSE AUSTRALIANS HAD REDUCED CREDIT TERMS FROM TWO YEARS TO ONE. MOST COMMERCIAL FLOUR IMPORTS NOW SUPPLIED BY EC COUNTRIES WHICH EXTEND TWO YEAR CREDITS. HUTCHINSON EXPLAINED CURRENT TERMS AND INTEREST RATE OF CCC CREDIT AND SAID USDA LAWYERS THOUGHT SOME ARRANGEMENT COULD BE MADE TO AVOID RESTRICTION ON MILLING ENROUTE. CCC CREDIT MIGHT BE EXTENDED TO PRIMA WHO WOULD IN TURN GIVE SAME CREDIT TERMS TO GSL. VELAYUTHAM APPEARED INTERESTED BUT SAID HE DID NOT WANT TO BECOME TOO DEPENDENT ON ONE SUPPLIER. HE WANTED TO KEEP HIS UNCLASSIFIED

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OPTIONS OPEN TO SWITCH SUPPLIERS TO OBTAIN BEST POSSIBLE CREDIT TERMS AND PRICES. NEVERTHELESS, HE WAS AWARE OF POTENTIAL SAVINGS FOR STATE FLOUR MILLING CORPORATION AND FOR FOOD COMMISSIONER THROUGH PURCHASE OF US WHEAT. HE SAID, HOWEVER, CCC WOULD HAVE TO GIVE AT LEAST TWO YEAR CREDIT. HUTCHINSON SAID USDA WOULD CAREFULLY CONSIDER ANY GSL APPLICATION FOR MORE THAN ONE YEAR CCC CREDIT.

8. COMMENT: EMBASSY WILL FOLLOW-UP ON POSSIBLE WHEAT PURCHASES BY STATE FLOUR MILLING CORPORATION AND FOOD COMMISSIONER.
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